NEWPORT LEGACY SEOUL KOREA: POWELL'S ROSY OUTLOOK INVITES FED TO WEIGH FOUR 2018 RATE HIKES

NEWPORT LEGACY WEALTH MANAGEMENT SEOUL KOREA THANKS JEROME POWELL AND THE AUTHORS OF THIS ARTICLE CRAIG TORRES AND CHRISTOPHER CONDON AND BLOOMBERG FOR REPRODUCING THE FOLLOWING ARTICLE.

NEWPORT LEGACY SEOUL KOREA BROADLY AGREES WITH THE FOLLOWING.

Jerome Powell opened the door to the Federal Reserve raising U.S. interest rates four times this year as he acknowledged stronger economic growth may prompt policy makers to rethink their plan for three hikes.

“My personal outlook for the economy has strengthened since December,” the Fed chairman said Tuesday in response to a question about what would cause the central bank to step up the pace of policy tightening. He then listed four events that are causing him to revise up his outlook.

Jerome Powell

Photographer: Andrew Harrer/Bloomberg

“We’ve seen continuing strength in the labor market,” Powell told the House Financial Services Committee in his first hearing as Fed chief. “We’ve seen some data that will in my case add some confidence to my view that inflation is moving up to target. We’ve also seen continued strength around the globe, and we’ve seen fiscal policy become more stimulative.”

Powell is taking over the Fed at a time when the world’s largest economy may be shifting gear to faster growth and declining unemployment, though inflation remains below the central bank’s 2 percent goal. Adding to the momentum are tax cuts and spending increases agreed to by Republican lawmakers and signed by President Donald Trump.

Economists said the signal was clear. The economic outlook is improving, and the chairman used the testimony to invite policy makers to reassess their December forecast for three hikes this year.

‘Clear Signal’

“It was very, very clear signal that they are going to do a little bit more hiking this year than was in their dots in December,” said Seth Carpenter, a former senior Fed adviser who is now chief U.S. economist at UBS Securities. “The committee is going to have to come up with a credible argument that refutes the logic he laid out” for stronger growth and possibly a faster pace of tightening.

Powell’s remarks caused yields on U.S. 10-year notes to jump to their highest levels of the day as they touched 2.92 percent after closing at 2.86 percent Monday. Stocks slipped into losses, with the S&P 500 Index down 0.9 percent at 3:39 p.m. in New York.

Fed officials will submit fresh estimates for the economy and the number of rate increases warranted this year at their upcoming meeting on March 20-21. When pressed on how such an improving assessment would affect the path of interest rates, Powell said he wouldn’t “want to prejudge” the results of that exercise.

Even though his written testimony echoed the “roughly balanced” language of the Fed’s January statement, Powell’s answers to questions signaled he’s gone a step beyond that.

“For a long time, there was slack in the labor market, and that argued for continuing to support lower unemployment. We’ve reached the point where the risks are really two-sided now,” Powell said.

If the economy overheats, “we’ll have to raise rates faster, and that raises the chances of a recession, and recessions tend to hit vulnerable populations the most,” he added. “We’re trying to balance the risk of getting inflation up to 2 percent with the risk of the economy overheating.”

Investors marked up the probability of a Fed rate hike in the fourth quarter to about 50 percent following Powell’s remarks. Odds of increases in the second and third quarters ticked up to about 80 percent and 70 percent, respectively, while the chances of a boost when the Fed next meets in March remained near 100 percent.

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The Fed chief's opening comments were also positive on the outlook for growth. He said "some of the headwinds the U.S. economy faced in previous years have turned into tailwinds."

"There has been a huge reaction in the rates market," said Priya Misra, head of global rates strategy at TD Securities. "He has more confidence in the outlook for growth and inflation than he did in December, but I think the market over-reacted."

For the Fed to go faster than three hikes in 2018, she added, there has to be evidence that inflation is moving up by at least mid-year. The Fed's preferred inflation benchmark rose 1.7 percent in 2017 and has been under its 2 percent goal for most of the last 5 years.

Powell said monetary policy will try to strike a balance between "avoiding an overheated economy" and bringing inflation back to target on a sustained basis.

The recent correction in the stock market and rising rates on U.S. government debt shouldn't hamper growth, he said.

“We do not see these developments as weighing heavily on the outlook for economic activity, the labor market, and inflation,’’ Powell said.

He repeated the FOMC’s January message, saying “further gradual increases’’ in the Fed’s policy rate “will best promote’’ the attainment of the central bank’s objectives of maximum employment and stable prices.

Powell said that the lag in wages during the expansion was due to low gains in output per hour, or productivity, though a new wave of investment spending “should support higher productivity growth in time.’’

“Wages should increase at a faster pace as well,’’ he said, adding that the FOMC continued to view the shortfall in inflation last year “as likely reflecting transitory influences that we do not expect will repeat.’’

— With assistance by Matthew Boesler, and Shelly Hagan